

MEMORANDUM

TO: Daniel Kiefer, Portfolio Manager
FROM: Martin Duffy, VP Senior Credit Officer, Moody's
RE: Statement of Investment Policy for Credit Enhancement Program 6/16/06
DATE: May 31, 2006

Moody's has reviewed your proposed revisions to the Statement of Investment Policy for Credit Enhancement Program dated 6/16/06 as presented in black line document entitled "Credit Enhancement program policy 6-16-06-blackline21.doc.

Changes being made to the Investment Policy in connection with Service Agent and eligible deal originator requirements will not impair Moody's prevailing Aaa/Prime-1 issuer ratings assigned to the PERS Credit Enhancement Program. Noted changes are likely to afford the program more flexibility in terms of being able to source deals from multiple entities with fewer constraints. In our view, the changes afford the plan greater operational latitude to field both credit and liquidity enhancement opportunities and do not diminish materially the conservative underwriting standards which remain in affect and support the program.

While specific tasks that were relegated to the Service Agent such as web based surveillance and risk reporting have tactical value, these functions are not likely to be compromised given the internal resources allocated by PERS to processing, monitoring and managing future commitment flow. Moody's is also comfortable with the current infrastructure, transaction vetting process and reporting conventions in affect in support of the rating.

CalPERS Aaa CEP rating is based on the financial strength of the organization, the Program's conservative underwriting guidelines, as well as CalPERS disciplined independent internal credit review process.

We are grateful to PERS for communicating proposed strategic changes to the credit enhancement program as this enables us to understand contemplated changes to the organizational structure of the program and potentially to underwriting guidelines that are relevant to rating considerations.

The Aaa issuer rating assigned to PERS in connection with commitments undertaken in the context of its recently launched credit enhancement program are in no way impaired by the proposed policy changes.

CC: Henry Shilling